

Message Text

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PAGE 01 STATE 293950

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ORIGIN EB-07

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FM SECSTATE WASHDC

TO USMISSION GENEVA IMMEDIATE

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STADIS//////////

EB ONLY

E.O. 11652: N/A

TAGS: GATT

SUBJECT: MFA: TRANSITION PAPER

FOR ANGEVINE OR BREW - TEXTILES COMMITTEE DELEGATION FROM
FOUTS

1. DEPARTMENT TRANSITION PAPER TEAM HAS ASKED FOR BRIEFING
ON MFA AS PART OF LARGER PAPER ON INTERNATIONAL TRADE ISSUES.
DRAFT OF PAPER, WHICH DRAWS HEAVILY ON RECENT CIRCULAR
TELEGRAM GIVING U.S. POSITION ON MFA, FOLLOWS. DRAFT IS
BEING CLEARED IN ICD, S/P, TA AND H, AND IS DUE IN FINAL
2 PM (WASHINGTON TIME) ON FRIDAY.

2. FORMAT IS THAT REQUESTED BY TRANSITION STAFF. INSTRUC-
TIONS NOTE THAT FIRST SECTION SHOULD IN PARTICULAR HIGHLIGHT
"ACTION FORCING EVENTS AND OPPORTUNITIES DURING JANUARY
20-JULY 31, 1977". LANGUAGE RE OUR POSITION ON CANADIAN
MFA OBLIGATIONS REFLECTS DISCUSSION WITH EB/OT/TA PER
BREW/FOUTS TELCON.

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PAGE 02 STATE 293950

3. PAPER IS FOR DEPARTMENT TRANSITION TEAM, AND NO

CLEARANCES FROM OTHER AGENCIES ARE REQUIRED.

4. PLEASE TRANSMIT ANY NECESSARY CHANGES TO DEPARTMENT BY IMMEDIATE STADIS CABLE.

5. TEXT FOLLOWS:

TRANSITION PAPER

III. THE MULTIFIBER AGREEMENT

THE MULTIFIBER AGREEMENT (ARRANGEMENT REGARDING INTERNATIONAL TRADE IN TEXTILES OR MFA) PROVIDES AN INTERNATIONALLY DETERMINED SET OF PRINCIPLES WITHIN THE GATT FOR THE REGULATION OF INTERNATIONAL TEXTILE TRADE. THE MFA CAME INTO EFFECT ON JANUARY 1, 1974, AND IS SCHEDULED TO EXPIRE ON DECEMBER 31, 1977. THE PURPOSE OF THE MFA IS TO ALLOW THE ORDERLY EXPANSION OF INTERNATIONAL TEXTILE TRADE; IT AUTHORIZES MEMBER COUNTRIES TO TAKE MEASURES TO PROTECT DOMESTIC TEXTILE MARKETS FROM DISRUPTION OR THE THREAT OF DISRUPTION BY IMPORTS. THE U.S. AND ITS MAJOR TEXTILE SUPPLIERS ARE AMONG THE 38 COUNTRIES WHICH HAVE RATIFIED THE MFA; IN ACCORDANCE WITH THE PROVISIONS OF THE AGREEMENT, MEMBER COUNTRIES ARE MEETING IN GENEVA NOVEMBER 30-DECEMBER 10, TO CONDUCT A MAJOR REVIEW OF ITS OPERATION AND TO CONSIDER WHETHER IT SHOULD BE EXTENDED, MODIFIED OR DISCONTINUED BEYOND THE 1977 EXPIRATION DATE.

WE BELIEVE THAT THE MFA HAS PROVIDED A BROADLY ACCEPTABLE FRAMEWORK FOR THE REGULATION OF INTERNATIONAL TRADE IN TEXTILES. HOWEVER, THE AGREEMENT HAS BEEN STRONGLY CRITICIZED BY BOTH IMPORTING AND EXPORTING COUNTRIES, AND THE PRESSURE PUT ON MANY DEVELOPED COUNTRIES' TEXTILE INDUSTRIES BY THE RECENT RECESSION HAS COMPLICATED THE ALWAYS DIFFICULT TASK OF LIBERALIZING TRADE IN THIS SENSITIVE AREA. MANY IMPORTING COUNTRIES (INCLUDING MOST EC COUNTRIES, THE NORDICS, AUSTRALIA AND CANADA) DO NOT BELIEVE THAT THE MFA, AS PRESENTLY OPERATED CAN ASSURE A MINIMUM VIABLE LEVEL OF TEXTILE PRODUCTION IN DEVELOPED COUNTRIES. IN PARTICULAR, THEY SEE THE MFA GUARANTEE OF SIX PER CENT ANNUAL GROWTH IN IMPORT RESTRAINT LEVELS AS LIMITED OFFICIAL USE

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PAGE 03 STATE 293950

AN UNREASONABLE HARDSHIP FOR INDUSTRIES IN COUNTRIES FACIN STAGNANT OR DECLINING DOMESTIC DEMAND. THESE COUNTRIES ARE LIKELY TO PRESS FOR CHANGES IN THE MFA TO ALLOW SMALLER OR NEGATIVE GROWTH IN IMPORTS IF DOMESTIC PRODUCTION DECLINES. CANADA HAS THROWN THE FUTURE OF THE AGREEMENT INTO QUESTION BY MOVING ON NOVEMBER 29 TO IMPOSE RESTRAINTS ON ALL APPAREL UNDER GATT ARTICLE XIX AT A LOWER LEVEL THAT WOULD BE ALLOWED UNDER THE MFA; CANADA HAS ARGUED

THAT SINCE ITS GATT RIGHTS ARE RESERVED UNDER THE MFA,
IT HAS NO BINDING OBLIGATION TO COMPLY WITH MFA
STANDARDS IN IMPLEMENTING TEXTILE RESTRAINTS.

WHILE IN PRIVATE TEXTILE EXPORTING COUNTRIES EXPRESS
CONSIDERABLE DIVERSITY OF OPINION, PUBLICALLY MOST LDC'S
SUPPORT THE G-77'S DECLARATION, MADE LAST MAY IN MANILA,
OPPOSING CONTINUED RESTRAINTS ON TEXTILE EXPORTS. EXPORTIN
COUNTRIES ARE SEEKING STRICTER CRITERIA FOR DETERMINATION
OF MARKET DISRUPTION, MORE LIBERAL TREATMENT OF COUNTRIES
HAVING SMALL MARKET SHARES, AND BROADER EXEMPTIONS FOR
TRADITIONAL AND HANDLOOM FABRIC PRODUCTS.

ALTHOUGH THE U.S. WILL DURING THE CURRENT MEETING FOR A
COMMITMENT IN PRINCIPLE TO EXTENSION OF THE MFA, CHANCES
OF ACHIEVING THIS GOAL ARE LIMITED. EVEN IF A COMMITMENT
IS OBTAINED, AN ADDITIONAL MEETING OR MEETINGS WILL BE
REQUIRED IN THE SPRING TO DETERMINE THE DETAILS OF THE
EXTENSION. WE WILL PUSH FOR AN EARLY MEETING, PROBABLY IN
FEBRUARY; A MORE LIKELY DATE IS MARCH OR EARLY APRIL.

CURRENT U.S. POLICY:

IN MARCH, 1976, PRESIDENT FORD PUBLICLY COMMITTED THE U.S.
TO SUPPORT EXTENSION OF THE MFA WITHOUT CHANGE. ALTHOUGH
HE DID NOT SPECIFY A TIME PERIOD FOR EXTENSION, WE HAVE
INDICATED TO OTHER COUNTRIES THAT WE BELIEVE A THREE YEAR
EXTENSION IS THE MOST FEASIBLE COURSE.

BRIEF HISTORY OF POLICY:

OUR SUPPORT FOR EXTENSION OF THE MFA STEMS FROM THE BELIEF
THAT OVER THE COURSE OF THE NEXT FIVE YEARS, SOME FORM
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PAGE 04 STATE 293950

OF TEXTILE IMPORT RESTRAINTS BY DEVELOPED COUNTRIES ARE
INEVITABLE BECAUSE OF THE CONTINUED THREAT OF MARKET
DISRUPTION BY IMPORTS FROM DEVELOPING COUNTRIES. WE
BELIEVE THAT RESTRAINT MEASURES ADMINISTERED WITHIN AN
INTERNATIONALLY SANCTIONED FRAMEWORK WHICH TAKES ACCOUNT
OF THE SPECIAL FEATURES OF INTERNATIONAL TEXTILE TRADE
ARE PREFERABLE TO UNILATERAL MEASURES BY IMPORTING COUNTRY
(IN THIS REGARD, WE DO NOT SUPPORT THE CANADIAN CONTENTION
THAT SIGNATURE OF THE MFA IMPOSES NO OBLIGATIONS ON MEMBER
COUNTRIES BEYOND THOSE PRESCRIBED BY GATT; IN OUR VIEW,
ACCESSION TO A CODE WITH OBLIGATIONS STRONGER THAN THOSE
OF GATT CREATES AN ASSUMPTION THAT A COUNTRY WILL COMPLY
WITH THE CODE.) WE HAVE MAINTAINED THAT AN EARLY COMMITMENT
TO RENEWAL OF THE MFA IS NECESSARY BOTH TO COMBAT PRESSURES
FOR INCREASED PROTECTIONISM IN DEVELOPED COUNTRIES AND TO

PREVENT UNCERTAINTY WHICH WOULD HAVE A NEGATIVE EFFECT ON WORLD TEXTILE TRADE. WE ALSO BELIEVE EARLY RENEWAL IS NECESSARY TO AVOID INSERTING THE ISSUE OF QUANTITATIVE RESTRAINTS ON TEXTILE TRADE INTO THE MTN, WHERE IT WOULD COMPLICATE THE NEGOTIATION OF UNDERSTANDINGS ON TEXTILE TARIFFS AND OTHER ISSUES. WE HAVE SUPPORTED EXTENSION OF THE MFA WITHOUT CHANGE IN THE BELIEF THAT EFFORTS TO REACH AGREEMENT ON AMENDMENTS WOULD NOT BE SUCCESSFUL AND WOULD ONLY GIVE RISE TO CONFLICT BETWEEN IMPORTING AND EXPORTING COUNTRIES WHICH WOULD MAKE FUTURE AGREEMENT ON INTERNATIONAL TEXTILE TRADE ISSUES MORE DIFFICULT.

HUMAN RIGHTS ASPECTS:

NONE.

CONGRESSIONAL PERSPECTIVE:

CONGRESS IS A STRONG SUPPORTER OF ACTION TO PROTECT THE U.S. TEXTILE INDUSTRY FROM DISRUPTION OR THE THREAT OF DISRUPTION BY IMPORTS. THE HOUSE INFORMAL TEXTILE COMMITTEE COMPOSED OF OVER 200 CONGRESSMEN FROM TEXTILE MANUFACTURING STATES, TAKES AN ACTIVE INTEREST IN TEXTILE TRADE POLICY. ON SEPTEMBER 21, 1976, THE COMMITTEE PASSED A RESOLUTION SUPPORTING EXTENSION OF THE MFA FOR A PERIOD OF NOT LESS THAN FIVE YEARS, AND EXPRESSING THE VIEW THAT THE LIMITED OFFICIAL USE

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PAGE 05 STATE 293950

AGREEMENT SHOULD BE STRENGTHENED TO DEAL WITH SECTORS WHICH HAVE SUFFERED "UNDUE DISRUPTION AND UNEMPLOYMENT" AND THAT THE U.S. SHOULD "ENFORCE ITS RIGHTS (UNDER THE MFA) MORE EFFECTIVELY".

OUTSIDE STUDIES:

NONE.

ROBINSON

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